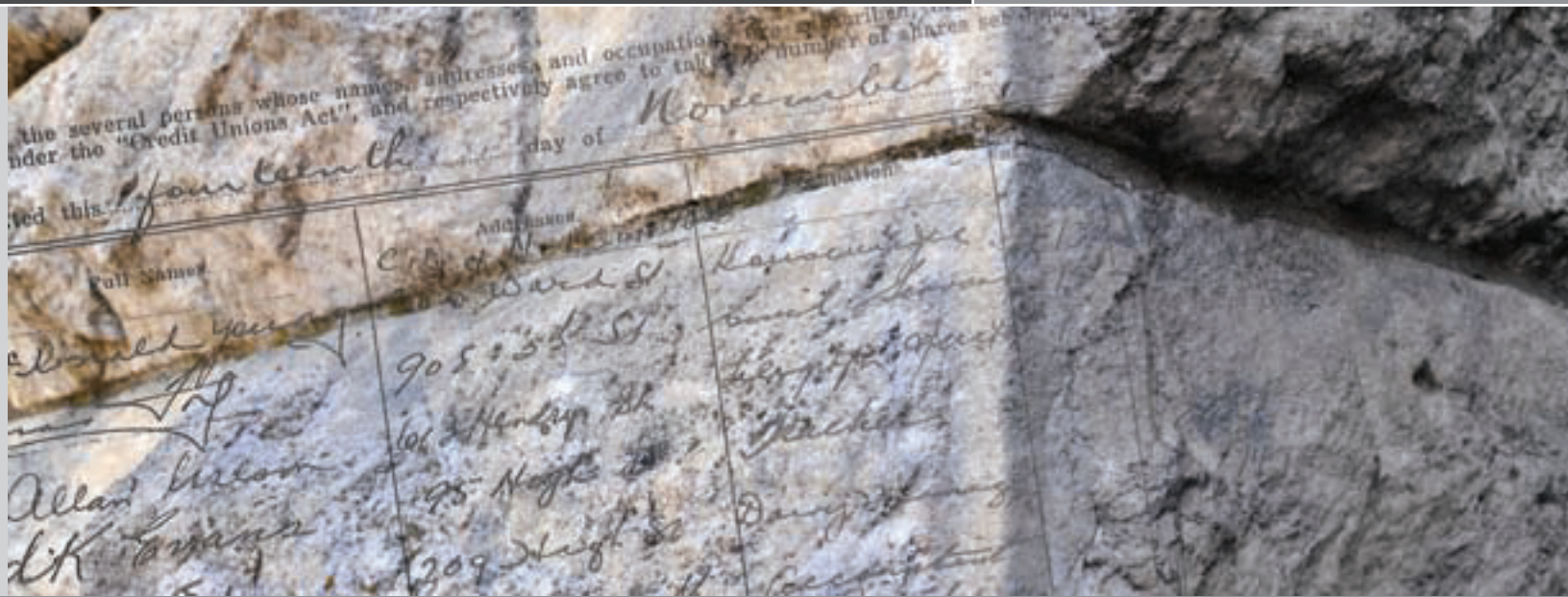


Nelson & District

CREDIT UNION  *Logically. Locally.*



2010 Consolidated Financial Statements

Consolidated Financial Statements of
NELSON & DISTRICT CREDIT UNION

December 31, 2010

NELSON & DISTRICT CREDIT UNION
Index to Consolidated Financial Statements
December 31, 2010

Management's Responsibility for Financial Reporting	- Page 1
Independent Auditor's Report	- Page 2
Consolidated Balance Sheet	- Pages 3 - 4
Consolidated Statement of Income and Retained Earnings	- Pages 5 - 6
Consolidated Statement of Cash Flows	- Page 7
Notes to Consolidated Financial Statements	- Pages 8 - 20

March 9, 2011

Nelson, B.C.

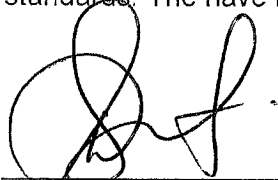
Management's Responsibility for Financial Reporting

The consolidated financial statements of the Nelson & District Credit Union are the responsibility of management and have been approved by the Board of Directors. The statements are in accordance with the requirements of the Financial Institutions Act and in conformity with generally accepted accounting principles in Canada. The statements include amounts based on informed judgments and estimates of the expected effects of current events and transactions.

Management is responsible for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Board of Directors has appointed an Audit Committee, comprised of four directors, to review with management and auditors the annual financial statements prior to submission to the Board of Directors for final approval.

Berg Naqvi Lehmann, the external, independent auditors appointed by the membership, examined the financial statements of the Credit Union in accordance with Canadian generally accepted auditing standards. They have had full access to the Audit Committee of the Board. Their report follows.



Doug Stoddart, CEO



John Yowek, Controller

INDEPENDENT AUDITORS' REPORT

To the Members
Nelson & District Credit Union

We have audited the accompanying consolidated financial statements of the Nelson & District Credit Union and its subsidiary, which comprise the consolidated balance sheet as at December 31, 2010, and the consolidated statement of income and retained earnings and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of these financial statements in accordance with Canadian Generally Accepted Accounting Principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

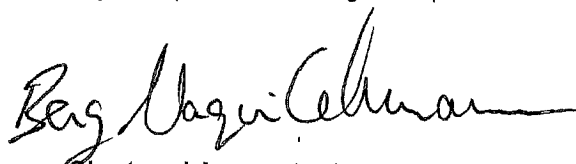
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Nelson & District Credit Union and its subsidiary as at December 31, 2010, and their financial performance and cash flows for the year then ended in accordance with Canadian Generally Accepted Accounting Principles.


Chartered Accountants

March 9, 2011
Nelson, B.C.

NELSON & DISTRICT CREDIT UNION
CONSOLIDATED BALANCE SHEET
As At December 31, 2010

ASSETS	2010	2009
CASH AND SHORT-TERM DEPOSITS	\$ 37,425,937	\$ 27,454,243
MEMBERS' LOANS (note 4)	114,035,079	112,898,931
ACCOUNTS RECEIVABLE	204,132	57,904
PREPAID EXPENSES	109,636	128,049
INCOME TAX REFUNDABLE	210,070	24,466
INVESTMENTS (note 5)	6,652,471	17,737,687
PROPERTY AND EQUIPMENT (note 6)	3,207,415	3,253,139
INTANGIBLE ASSET (note 7)	230,565	-
	<hr/>	<hr/>
	\$ 162,075,305	\$ 161,554,419

NELSON & DISTRICT CREDIT UNION
CONSOLIDATED BALANCE SHEET (Continued)
As At December 31, 2010

LIABILITIES AND MEMBERS' EQUITY	2010	2009
MEMBERS' DEPOSITS		
Demand	\$ 89,224,264	\$ 85,895,603
Term	32,838,231	36,278,432
Registered savings plans	25,429,718	25,213,938
Non-equity shares	358,110	396,835
	<u>147,850,323</u>	<u>147,784,808</u>
ACCOUNTS PAYABLE	706,191	711,075
BC CORPORATE CAPITAL TAX PAYABLE	9,265	44,700
FUTURE INCOME TAX PAYABLE	122,100	286,400
	<u>837,556</u>	<u>1,042,175</u>
MEMBERS' EQUITY		
Equity Shares (note 8)	1,127,922	1,222,394
Contributed Surplus	762,796	762,796
Retained Earnings	11,496,708	10,742,246
	<u>13,387,426</u>	<u>12,727,436</u>
	<u>\$ 162,075,305</u>	<u>\$ 161,554,419</u>

Approved by the Directors:

NELSON & DISTRICT CREDIT UNION
CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS
For the Year Ended December 31, 2010

	2010	2009
INTEREST EARNED		
Members' loans	\$ 5,618,769	\$ 5,665,162
Investments	1,011,441	1,199,222
	<u>6,630,210</u>	<u>6,864,384</u>
INTEREST EXPENSE		
Members' deposits	1,515,704	1,900,114
Borrowed money	2,484	2,942
Non-equity share dividend	14,322	17,177
	<u>1,532,510</u>	<u>1,920,233</u>
OPERATING MARGIN	5,097,700	4,944,151
OTHER INCOME		
Chequing and other services	1,446,544	1,586,329
Financial planner loss	(18,647)	(26,831)
Equity investment income	87,831	80,485
	<u>6,613,428</u>	<u>6,584,134</u>
OPERATING EXPENSES		
Advertising and promotion	131,918	120,286
Amortization of property and equipment	162,605	184,135
Audit, legal and inspection fees	245,317	136,719
Banking system conversion costs	289,728	-
Building occupancy	228,343	245,524
Data processing and other financial charges	988,561	933,658
Directors and committee expenses	105,456	108,690
Dues and assessments	138,227	147,077
Insurance and bonding	22,587	23,888
Office and other staff expenses	418,932	429,393
Provision for losses on loans and other write-offs (recovery)	32,615	(40,477)
Salaries and employee benefits	2,871,993	2,947,897
Savings and loan insurance	27,666	26,115
Wellness program	10,801	20,094
B.C. Capital tax	9,265	44,700
	<u>5,684,014</u>	<u>5,327,699</u>
COMMUNITY INVESTMENT PROGRAMS	207,522	318,433
	<u>5,891,536</u>	<u>5,646,132</u>
INCOME FROM CONTINUING OPERATIONS (carried forward)	\$ 721,892	\$ 938,002

NELSON & DISTRICT CREDIT UNION
CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS (Continued)
For the Year Ended December 31, 2010

	2010	2009
INCOME FROM CONTINUING OPERATIONS (brought forward)	\$ 721,892	\$ 938,002
DISTRIBUTION TO MEMBERS	(66,800)	(75,951)
INCOME BEFORE INCOME TAX	<u>655,092</u>	<u>862,051</u>
Income Tax		
- current (note 15)	64,930	300,806
- future (recovery)	(164,300)	20,400
	<u>(99,370)</u>	<u>321,206</u>
NET INCOME	754,462	540,845
RETAINED EARNINGS, BEGINNING OF YEAR	<u>10,742,246</u>	<u>10,201,401</u>
RETAINED EARNINGS, END OF YEAR	<u>\$ 11,496,708</u>	<u>\$ 10,742,246</u>

NELSON & DISTRICT CREDIT UNION
CONSOLIDATED STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2010

	2010	2009
OPERATING ACTIVITIES		
Net income	\$ 754,462	\$ 540,845
Items not affecting cash flow		
- amortization of property and equipment	171,656	192,067
- increase (decrease) in provision for losses on loans	36,000	(40,497)
- equity investment income	(87,831)	(80,485)
- loss on write off of property and equipment	-	858
- future income tax expense (recovery)	(164,300)	20,400
	<u>709,987</u>	<u>633,188</u>
Changes in non-cash working capital (note 17)	(353,738)	319,941
Cash Provided By Operating Activities	<u>356,249</u>	<u>953,129</u>
FINANCING ACTIVITIES		
Increase in member deposits	65,515	3,024,365
Decrease in member equity shares	(94,472)	(29,316)
Cash Provided By (Used For) Financing Activities	(28,957)	2,995,049
INVESTING ACTIVITIES		
Increase in member loans net of repayments	(1,172,148)	(4,262,366)
Decrease (increase) in investments	11,173,047	(14,129,219)
Additions to property and equipment	(125,932)	(76,029)
Intangible asset under development	(230,565)	-
Cash Provided By (Used For) Investing Activities	9,644,402	(18,467,614)
INCREASE (DECREASE) IN CASH AND TERM DEPOSITS	9,971,694	(14,519,436)
CASH AND TERM DEPOSITS, BEGINNING OF YEAR	27,454,243	41,973,679
CASH AND TERM DEPOSITS, END OF YEAR	\$ 37,425,937	\$ 27,454,243
Supplementary Cash Flow Information:		
Income tax paid	\$ 275,000	\$ 322,593
Interest paid	\$ 1,803,368	\$ 2,136,956

1. SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the significant accounting policies of the Credit Union.

Basis of Presentation

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

Principles of Consolidation

The consolidated financial statements include the accounts of Nelson & District Credit Union and its wholly owned subsidiary, Allard Insurance Agencies Ltd. All intercompany accounts and transactions have been eliminated.

Property and Equipment

Property and equipment are recorded at cost less amortization which is provided annually as follows:

Buildings	2% diminishing balance basis
Furniture, fixtures and improvements	10% diminishing balance and 20% - 33% straight-line basis
Leasehold improvements	20% straight-line basis
Computer and other equipment	33% straight-line basis

Intangible Asset

The intangible asset includes the capital cost of a new banking system under development at the end of the year. Amortization will be recorded on a straight-line basis over the estimated useful life of the asset and will begin when the system is put into use, anticipated to be April, 2011.

Provision for Losses on Loans

The Credit Union maintains a provision for losses on loans, which in management's opinion, is considered adequate to provide for loan related losses. The provision consists of specific and general provisions. The specific provision is determined on the basis of specific loans, which in management's opinion, may not be fully collected. The specific provision is supplemented by a general provision determined by the judgment of management based on historical loan loss experience and known risks in the portfolio and is maintained to allow for credit losses that management estimates have occurred at the balance sheet date for which specific allowances cannot yet be determined.

Revenue Recognition

The Credit Union recognizes interest income using the effective interest rate method for all investments and for all loans not classified as impaired. A loan is classified as impaired when there is reasonable doubt as to the ultimate collection of some portion of principal and interest. Revenue from chequing and other services is recognized in the period the service is rendered. Commission income is recognized in the period earned if the amount is reasonably determinable; otherwise upon receipt.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign Currency Translation

Monetary items denominated in foreign currencies are translated at rates prevailing on the balance sheet date; income and expenses are translated at the average rates prevailing during the year. Realized and unrealized foreign exchange gains or losses arising from the translation or the settlement of a monetary item denominated in a foreign currency are recorded in other income. The Credit Union does not participate in active trading positions on foreign currencies.

Members' Distributions Payable

The estimated amount of distributions payable is charged to income for the year.

Income Taxes

The Credit Union uses the asset and liability method of accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, and measured using the substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse. The net change in recorded future income tax assets and liabilities is recognized in income in the period in which the change occurs including any change in applicable future tax rates.

Financial Instruments - Recognition and Measurement

The Credit Union's financial instruments consist of cash and term deposits, members' loans, accounts receivable, investments, members' deposits and accounts payable. The estimated fair values of these financial instruments are as described in note 12.

Financial instruments are required to be measured at fair value on initial recognition except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held for trading, loans and receivables, held to maturity, available for sale, or financial liabilities. The Credit Union has financial instruments classified in the following categories:

Held for Trading

Financial instruments are classified under this category if they are acquired principally for the purpose of selling or repurchasing in the near term. Held for trading financial instruments are initially recognized at fair value. Gains and losses arising from the change in fair value of these financial instruments are recorded in the statement of income. The Credit Union classifies its cash in this category.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable repayment dates, usually with interest, that are not debt securities. Loans and receivables are initially recognized at fair value including direct and incremental transaction costs. They are subsequently valued at amortized cost using the effective interest rate. The Credit Union has classified Members' Loans in this category. Note 4 discloses the provision for loan losses related to these financial instruments.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Held to Maturity

Held to maturity investments are non-derivative financial assets with fixed or determinable payments that the Credit Union's management has the intention and ability to hold to maturity. They are initially recognized at fair value including direct and incremental transaction costs. They are subsequently valued at amortized cost, using the effective interest method. All the Credit Union's term deposits have been classified as held to maturity. The fair values of these term deposits approximate their recorded cost.

Available for Sale

Available for sale assets are non-derivative financial assets that are designated as available for sale or are not categorized into any of the other categories described above. They are initially recognized at fair value including direct and incremental transaction costs. They are subsequently held at fair value, with gains and losses arising from changes in fair value being recorded in other comprehensive income. The Credit Union has classified its investments as available for sale, except for its equity investment in Kootenay Insurance Services Ltd, a significant influenced investee, and as such, specifically excluded from classification as a financial instrument.

Financial Liabilities

Financial liabilities are non-derivative financial liabilities and are measured at amortized cost using the effective interest method. The Credit Union's Members' Deposits are classified into this category.

Use of Estimates

The Preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates. Significant areas requiring the use of estimates include accounting for the loan loss provision, assessing future cash flows for testing asset impairment, valuation of investments, accrued liabilities and estimating the useful lives of assets for amortization.

These estimates and assumptions are reviewed periodically, and as adjustments become necessary, they are reported in the periods in which they become known.

2. FUTURE ACCOUNTING STANDARDS

The Canadian Accounting Standards Board requires all publicly accountable enterprises to adopt International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011, including the restatement of comparative period financial statements on the same basis. The transition from Canadian GAAP to IFRS will be applicable for the Credit Union for the year ending December 31, 2011.

While the conceptual framework is similar to Canadian GAAP, there are significant differences on recognition, measurement and disclosures. The following are the key areas where the changes in accounting policies as a result of adopting IFRS are expected to impact the Credit Union's financial statements. The Credit Union is in the process of quantifying the impact.

IFRS 1 - First-time Adoption of IFRS:

IFRS 1, which provides guidance for an entity's initial adoption of IFRS, generally requires that an entity apply all IFRS retrospectively. This means that the Credit Union will be required to prepare an opening IFRS statement of financial position as at January 1, 2010, which will be disclosed with the financial statements for the year ended December 31, 2011. In addition, reconciliations between Canadian GAAP and IFRS with detailed explanations of the adjustments will be required for the 2010 comparative year.

Elective Exemptions:

IFRS 1 includes elective exemptions. Based on our analysis of the exemptions to retrospective application, the Credit Union has concluded to apply the exemption for property, plant and equipment. The Credit Union will apply the cost model for property, plant and equipment and will not restate these assets to fair value under IFRS, but will use the historical basis under Canadian GAAP as the deemed cost under IFRS at transition.

IAS 16 - Property, Plant and Equipment:

IAS 16 requires that each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately. The Credit Union has not yet assessed whether this will have a material impact on the financial statements.

IAS 19 - Employee Benefits:

Upon adoption of IFRS, IAS 19 will require the Credit Union to disclose additional information regarding pension benefits. Furthermore, IAS 19 also requires that the Credit Union assess the expected liability for short-term accumulating compensated absences. The Credit Union has not fully determined the impact this may have on the financial statements.

IAS 39 - Financial Instruments: Loan Loss Provisioning:

IAS 39 adopts an incurred loss model for loan loss provisioning with explicit guidance on the methodology to be followed in assessing and measuring loan impairment. Provisions can only be recorded where there is objective evidence that a loss event has occurred and the loss event is expected to change the timing and or amount of the expected cash flows on the underlying loans based on past experience. General allowances are not permitted under IFRS. The Credit Union is in process of building its loan loss provision model, and the impact on the financial statements has not yet been determined.

NELSON & DISTRICT CREDIT UNION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
As At December 31, 2010

2. FUTURE ACCOUNTING STANDARDS (continued)

IAS 40 - Investment Property:

IAS 40 allows an entity to choose either the fair value model or the cost model for investment property. The Credit Union has chosen to use the cost model for its investment property, which consists of real estate. IAS 40 also requires specific presentation and disclosures relating to investment property. This includes disclosing the amounts recognized in profit or loss for rental income and related operating expenses, and for property, plant and equipment to be segregated between own-use property and investment property for presentation and disclosure purposes.

3. STATUTORY INFORMATION

a) As at December 31, 2010, outstanding loans and lines of credit issued to related parties, as defined under the Financial Institutions Act, amounted to \$3,101,100.

b) Directors' Remuneration

Total remuneration paid to directors in their capacity as directors, was \$58,880 (2009 - \$54,780).

4. MEMBERS' LOANS

	2010	2009
Mortgages and real estate secured	\$ 105,035,999	\$ 102,391,937
Otherwise secured and unsecured	9,378,639	10,897,475
Accrued interest thereon	<u>272,331</u>	<u>274,884</u>
	114,686,969	113,564,296
Less: Allowance for doubtful loans	<u>651,890</u>	<u>665,365</u>
	\$ 114,035,079	\$ 112,898,931
Allowance for doubtful loans		
Balance, beginning of year	\$ 665,365	\$ 774,168
Less: Uncollectible loans, written off	<u>(49,475)</u>	<u>(68,306)</u>
	615,890	705,862
Increase (decrease) in provision for loan losses	<u>36,000</u>	<u>(40,497)</u>
Balance, end of year	\$ 651,890	\$ 665,365

The allowance for doubtful loans is made up of a general provision of \$540,912 (2009 - \$612,000) and a specific provision of \$110,978 (2009 - \$53,365).

NELSON & DISTRICT CREDIT UNION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
As At December 31, 2010

5. INVESTMENTS	2010	2009
Shares, Central 1 Credit Union	\$ 388,051	\$ 400,502
Accrued dividend - shares, Central 1 Credit Union	5,800	45,402
Shares, Stabilization Central Credit Union of BC	240	240
Debenture, Credential Securities	15,000	15,000
Shares, CUISA Managing General Agency Corporation	10,000	10,000
Shares, CUPP Services Ltd.	71,219	71,209
Concentra Financial term deposits	-	10,472,781
Dundee Securities - fixed income	2,965,353	3,006,908
GrowthStart Investment	-	606,668
Shares, Southern Interior Innovation Fund	600,000	600,000
Equity investment in Kootenay Insurance Services Ltd.	2,596,808	2,508,977
	<u>\$ 6,652,471</u>	<u>\$ 17,737,687</u>

6. PROPERTY AND EQUIPMENT

	2010		2009	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Land	\$ 500,626	\$ -	\$ 500,626	\$ -
Buildings	3,215,836	801,387	3,215,836	751,793
Furniture, fixtures and improvements	1,135,543	904,707	1,035,472	843,875
Computer and other equipment	315,097	253,593	289,236	192,363
	<u>5,167,102</u>	<u>1,959,687</u>	<u>5,041,170</u>	<u>1,788,031</u>
Cost less accumulated amortization	<u>\$ 3,207,415</u>		<u>\$ 3,253,139</u>	

7. INTANGIBLE ASSET

The Credit Union is in process of converting to a new banking system. The intangible asset includes the capital costs, primarily software, of this new banking system under development at the end of the year. Amortization will be recorded on a straight line basis over the life of the asset and will begin when the system is put into use. Total capital costs for this intangible asset totalled \$230,565 as at December 31, 2010.

NELSON & DISTRICT CREDIT UNION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
As At December 31, 2010

8. EQUITY SHARES

	2010	2009
Equity		
- Class A	\$ 306,110	\$ 307,843
- Class B	821,812	904,437
- Class C	-	10,114
	<u>\$ 1,127,922</u>	<u>\$ 1,222,394</u>

Class A, B, and C equity shares have a par value and redemption value of \$1 each. Dividends may be paid annually on each class of shares at the discretion of the Board of Directors. During the year, all the Class C shares were redeemed.

Each ordinary member and each junior member of the Credit Union is required to subscribe for 25 and 5 Class A shares respectively. Each member of the Credit Union may subscribe to a maximum of 100 Class A shares, and 5,000 Class B shares. The rules of the Credit Union state that the annual redemption of the Class A, and Class B equity shares is limited to 10% of the total issued and outstanding shares at the prior year-end. Class A, and B equity shares are not guaranteed by the Credit Union Deposit Insurance Corporation.

9. CAPITAL REQUIREMENTS

The Financial Institutions Act required the Credit Union to maintain, at all times a capital base of 8% which is adequate in relation to the business carried on. The level of capital required is based on a prescribed percentage of the total value of risk weighted assets, each asset of the Credit Union being assigned a risk factor based on the probability that a loss may be incurred on the ultimate realization of that asset. At December 31, 2010 the estimated total risk weighted equivalent value of the Credit Union was \$68,895,000 (2009 - \$69,530,000).

The Credit Union is in compliance with the Act and regulations regarding regulatory capital as indicated by the table below:

(Thousands of dollars)	2010	2009
Primary Capital	\$ 13,510	\$ 13,013
Secondary Capital	849	849
Deductions from Capital	(615)	(615)
Total Regulatory Capital	<u>\$ 13,744</u>	<u>\$ 13,247</u>
% of total assets	8.5 %	8.2%
% of risk weighted assets (capital adequacy)	19.9%	19.1%

10. LINE OF CREDIT

The Credit Union has an operating line of credit in favour of Central 1 Credit Union ("Central 1"). The Credit Union may borrow a maximum of \$1,800,000 Canadian dollars and \$200,000 US dollars utilizing the operating line of credit. As at December 31, 2010, the Credit Union's operating line of credit with Central 1 amounted to \$nil (2009 - \$nil).

11. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The Credit Union is exposed to the following risks as a result of holding financial instruments: credit risk, market risk and liquidity risk. The following is a description of these risks and how exposure to these risks are managed.

a) Credit Risk

Credit risk is the risk of financial loss to the Credit Union if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Credit Union's members' loans.

Risk Measurement:

Credit risk rating systems are designed to assess and quantify the risk inherent in credit activities in an accurate and consistent manner. Credit scoring is the primary risk rating system for assessing obligor and transaction risk for retail exposures.

Objectives, Policies and Processes:

The Credit Union's credit risk management principles are guided by its overall risk management principles. The Board of Directors is involved in the management of credit risks. The Board ensures that management has a framework, policies, processes and procedures in place to manage credit risks and that the overall credit risk policies are complied with at the business and transaction level.

The Credit Union's credit risk policies set out the minimum requirements for management of credit risk in a variety of transactional and portfolio management contexts. They comprise the following:

- 1) Loan general policy statements including approval of lending policies, eligibility for loans, exceptions to policy, policy violations, liquidity, and loan administration.
- 2) Loan lending limits, including schedule of assigned limits.
- 3) Loan collateral security classifications which set loan classifications, advance ratios and amortization periods.
- 4) Procedures outlining loan overdrafts, release or substitution of collateral, temporary suspension of payments and loans renegotiation.
- 5) Loan delinquency controls regarding procedures followed for loans in arrears.
- 6) Internal controls policy regarding audit procedures for lending activities.

The Credit Union's maximum exposure to credit risk in relation to each class of recognized financial asset is the carrying amount of those assets as indicated on the balance sheet. The maximum credit risk exposure does not take into account the value of any collateral or other security held. The Credit Union's maximum exposure to credit risk related to member loans as at December 31, 2010 was as follows:

Loans that are not past due > 30 days	\$ 112,158,829
Loans that are past due:	
30 to 89 days	1,352,893
90 to 179 days	118,891
180 to 365 days	52,752
Over 365 days	351,714
	\$ 114,035,079

11. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

At a minimum all loans that are over 90 days past due are considered impaired. There are 23 loans with a combined principal of \$523,357 (2009 - \$128,687) considered to be impaired. The Credit Union's credit risk policies, processes and methodologies have not changed materially in the past year.

b) Market Risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rate, foreign exchange rates, equity or commodity prices, and credit spreads. The Credit Union is exposed to market risk in our asset/liability management activities. The level of market risk to which the Credit Union is exposed varies depending on market conditions and expectations of future price and yield movements.

Asset/Liability Management

Traditional banking activities, such as deposit taking and lending, exposes the Credit Union to market risk, of which interest rate risk is the largest component. The Credit Union's goal is to manage the interest rate risk of the balance sheet within established limits. The Credit Union continually monitors the effectiveness of its interest rate risk mitigation activity.

Risk Management

The Credit Union's position is measured monthly. Measurement of risk is based on rates charged to members as well as funds transfer pricing rates.

Objectives, Policies, and Processes

Management is responsible for managing the Credit Union's interest rate risk, monitoring approved limits and compliance with policies and operating standards. The Credit Union has established policies and related reporting to manage its exposure to fluctuating interest rates (referred to as interest rate risk). Without these policies, the Credit Union's earnings would be impacted, either positively or negatively, as interest rates change.

The Credit Union's major source of income is financial margin, the difference between interest earned on investments and member loans and interest paid on member deposits.

The objective of "interest rate sensitivity" management is to match interest-sensitive assets with interest-sensitive liabilities as to amount and as to term to their interest rate repricing dates, thus minimizing fluctuations of income during periods of changing interest rates.

NELSON & DISTRICT CREDIT UNION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
As At December 31, 2010

11. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

The table below summarizes the interest rate sensitive assets and liabilities as at December 31, 2010 by the earlier of their contractual interest repricing or maturity dates and provides the weighted average interest rates of interest sensitive balances as well as those assets and liabilities that are not interest sensitive including those not classified as financial instruments.

Maturity dates substantially coincide with interest adjustment dates. Amounts with floating interest rates, or due on demand, are classified as maturing within one year. Amounts that are not interest sensitive are grouped together, regardless of maturity.

Although a significant amount of loans and deposits can be settled before maturity, no adjustment has been made to anticipate repayments.

A significant amount of loans and deposits can be settled before maturity on payment of a penalty. No adjustment has been made for repayments that may occur prior to maturity.

As at December 31, 2010, the weighted average rate for fixed rate interest-bearing assets is 3.94% (2009 - 4.62%) and for fixed rate interest-bearing liabilities is 2.27% (2009 - 2.49%).

	Average Rates	Floating Rate	1 Year	2 - 5 Years	Not Interest Sensitive	Total
ASSETS						
Fixed rate	3.94%	\$ -	\$ 35,201,000	\$ 77,981,000	\$ -	\$ 113,182,000
Variable rate	4.61%	33,739,000	-	-	-	33,739,000
Non-interest rate sensitive		-	-	-	15,154,305	15,154,305
		<u>33,739,000</u>	<u>35,201,000</u>	<u>77,981,000</u>	<u>15,154,305</u>	<u>162,075,305</u>
LIABILITIES AND MEMBERS' EQUITY						
Fixed rate	2.27%	-	38,902,000	14,860,000	-	53,762,000
Variable rate	0.075%	19,551,000	-	-	-	19,551,000
Non-interest rate sensitive		-	-	-	88,762,305	88,762,305
		<u>19,551,000</u>	<u>38,902,000</u>	<u>14,860,000</u>	<u>88,762,305</u>	<u>162,075,305</u>
NET MISMATCH		<u>\$ 14,188,000</u>	<u>\$(3,701,000)</u>	<u>\$ 63,121,000</u>	<u>\$(73,608,000)</u>	<u>\$ -</u>

11. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

Based on the Credit Union's interest rate positions at December 31, 2010 the following table shows the potential impact of 100 basis points (bps) increase or decrease in interest rates on the Credit Union's net interest income for the next 12 months.

100 bps increase	\$ 278,000
100 bps decrease	\$(314,000)

The interest rate risk policy has been approved by the Board of Directors and for the year ended December 31, 2010, the Credit Union was outside its target.

The Credit Union's overall market risk policies and procedures have not changed materially in the past year.

c) Liquidity Risk

Liquidity risk is the risk that the Credit Union may be unable to generate or obtain sufficient cash or its equivalent in a timely and cost effective manner to meet our commitments as they come due.

Risk Measurement

The assessment of the Credit Union's liquidity position reflects management's estimates, assumptions and judgments pertaining to current and prospective firm-specific and market conditions and the related behaviour of our members and counterparties.

Objectives, Policies, and Processes

The Credit Union's liquidity and funding management framework is designed to ensure that adequate sources of reliable and cost-effective cash or its equivalents are continually available to satisfy the Credit Union's current and prospective financial commitments under normal and contemplated stress conditions.

The Credit Union monitors and manages its liquidity position and considers regulatory, operational and any other applicable restrictions. The Board of Directors is responsible for oversight of the Credit Union's liquidity framework.

The Financial Institutions Act requires that the Credit Union maintain adequate liquidity, defined as a minimum of 8% of borrowings and member deposits, in certain classes of short-term liquid assets as defined in the regulations. The Credit Union complies with requirements regarding adequate liquidity at December 31, 2010.

As at December 31, 2010 the position of the Credit Union is as follows:

(Thousands of dollars)

Deposits and debt liabilities	\$ 149,694
Total liquidity requirement	\$ 11,975
Excess of liquidity requirement	\$ 25,450

There have been no material changes to the Credit Union's liquidity and funding management framework or levels of liquidity and funding risk in the past year.

12. FAIR VALUES OF FINANCIAL INSTRUMENTS

The estimated fair values of the Credit Union's financial instruments are set out below. No fair values have been determined for premises and equipment, significant influenced investees or any other asset that is not a financial instrument. The fair values of cash, variable rate loans, other financial assets and other financial liabilities are assumed to equal their book values, as the items are short-term in nature. The fair values of loans and deposits are determined by discounting the expected future cash flows at the estimated current market rates for loans and deposits with similar credit risks.

	2010		2009	
	Book Value	Estimated Fair Value	Book Value	Estimated Fair Value
FINANCIAL ASSETS				
Cash	\$ 4,937,359	\$ 4,937,359	\$ 2,911,265	\$ 2,911,265
Investments and purchased loans	\$ 43,609,945	\$ 44,316,000	\$ 41,620,357	\$ 42,295,930
Members' loans	\$ 106,969,375	\$ 106,397,000	\$ 111,050,262	\$ 111,160,000
Other financial assets	\$ 204,132	\$ 204,132	\$ 57,904	\$ 57,904
FINANCIAL LIABILITIES				
Deposits and equity shares	\$ 148,978,245	\$ 149,592,245	\$ 149,007,202	\$ 150,395,000
Other financial liabilities	\$ 706,191	\$ 706,191	\$ 711,075	\$ 711,075

The differences between the book values of the Credit Union's loans, deposits, and other financial instruments are due primarily to changes in interest rates. As the Credit Union normally holds these instruments to maturity, book values have not been adjusted to reflect the differences. Not all financial instruments are readily marketable. As a result, estimates of fair value are subjective and should not be considered precise.

13. PENSION PLAN

The Credit Union participates in a multi-employer defined benefit plan administered by Central 1 Credit Union. Included in salaries and employee benefits are amounts of \$187,792 (2009 - \$160,126) which relate to pension contributions.

The latest available actuarial evaluation was December 31, 2009 when the plan actuary reported that the plan had an unfunded liability of \$32,593,000. The next actuarial valuation will be prepared as of December 31, 2010 and will be available upon completion.

14. RELATED PARTY TRANSACTIONS

During the year, the Credit Union received rental and administrative revenue from Kootenay Insurance Services Ltd., a significantly influenced investee, of \$23,448 (2009 - \$23,448). These transactions are in the normal course of operations and are measured at the exchange amount which is the amount of consideration established and agreed to by the related parties.

NELSON & DISTRICT CREDIT UNION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
As At December 31, 2010

15. INCOME TAX EXPENSE

The Credit Union's provision for income taxes is made up of the following:

	2010	2009
Provision for income taxes based on the combined basic Canadian federal and provincial rate of 28.5% (2009 - 30%)	\$ 186,701	\$ 258,615
Increase (decrease) in taxes resulting from:		
Equity income for accounting not taxable in Credit Union	(25,032)	(24,146)
Financial planner loss carried forward in subsidiary	5,314	8,049
Non deductible expenses	5,116	8,547
Non deductible accounting reserves for contingent liabilities	-	13,020
Deductible accounting reserves from the prior year	(40,869)	-
Change in the non deductible general loan loss allowance	(20,260)	10,332
Difference in amortization for accounting and tax purposes	(7,239)	(17,898)
Other timing differences between accounting and taxable income	(461)	-
Net small business rate deduction on income below threshold	(3,456)	(6,015)
Additional Credit Union deduction	-	(14,791)
BC tax credit for investment in Venture Capital Fund	(34,884)	-
Tax re-assessment on 2005 dividend	-	65,093
	<u>\$ 64,930</u>	<u>\$ 300,806</u>

16. COMMITMENTS

In the normal course of business, the Credit Union issues letters of credit on behalf of its members. These undrawn amounts are not included in the consolidated balance sheet, and as at December 31, 2010, amounted to \$717,008 (2009 - \$748,275).

17. CHANGES IN NON-CASH WORKING CAPITAL

	2010	2009
Accounts receivable	\$(146,228)	\$ 123,794
Prepaid expenses	18,413	13,670
Income tax refundable	(185,604)	92,548
Accounts payable	(4,884)	121,529
BC Corporate Capital tax payable	(35,435)	(31,600)
	<u>\$(353,738)</u>	<u>\$ 319,941</u>



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